

Food and Nutrition Service Mountain Plains Region 1244 Speer Boulevard Denver, CO 80204-3585

Reply to Attn. of:

CACFP-591

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Subject:

Child and Adult Care Food Program (CACFP) Funds Integrity -

Family Day Care Home (FDCH) Sponsors

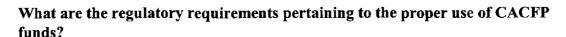
To:

STATE AGENCY DIRECTORS -

(Child Nutrition Programs)

Colorado DPHE, Iowa, Kansas, Missouri DH, Montana DPHSS, Nebraska ED, North Dakota, South Dakota, Utah and Wyoming ED

This memorandum discusses the regulatory requirements of FDCH sponsoring organizations to ensure that CACFP funds are used only for their intended purpose of providing meals to eligible children. It also delineates the State agency's (SA) responsibility to ensure that the funds are properly used.



A sponsoring organization acts as a pass-through entity for Federal meal reimbursement funds on behalf of its providers. In accordance with Sections 226.13(c) and 226.18(b)(7) of the CACFP regulations, sponsoring organizations of FDCHs must disburse the full amount of meal service earnings to providers, except that, with a provider's prior written consent, the sponsoring organization may subtract the costs of providing meals or program foodstuffs to a family day care home. Further, Section 226.16(g) requires a sponsoring organization to disburse food service advance payments and/or reimbursement payments to FDCH providers within five working days of receipt from the SA. Any other use of provider payments is contrary to regulatory requirements.

In accordance with Section 226.12(a), sponsoring organizations of day care homes receive payments for administrative costs. These are the <u>only</u> Federal CACFP funds they may use to meet their administrative expenses.

In summary, provider meal reimbursements must only be used to pay providers for costs associated with providing meals to eligible children and sponsor administrative payments must only be used by sponsors to pay approved administrative expenses.

What procedures must sponsors follow to demonstrate full disbursement of provider advance and reimbursement payments?

- Write checks to the specific providers for which the advance or reimbursement payment was claimed;
- write checks equal to the full amount of the advance or reimbursement payment received, less any amounts withheld pursuant to the CACFP regulations;
 - mail all of the checks within the required 5 working day time frame;
- reconcile provider advances, meal claims, and reimbursement payments for each provider on a monthly basis; and
- maintain the integrity of advance and reimbursement payments regardless of whether a separate or commingled account is used.

What procedures must sponsors follow when using a separate bank account or a commingled account for provider payments?

The integrity of the food service funds must be maintained at all times, whether sponsors use a separate bank account for provider payments or maintain provider payments in a commingled account. Provider meal funds are held in trust by the sponsor and the funds are considered to be Federal funds until disbursed to the provider, even if the funds are deposited in a sponsor's bank account and/or the funds are commingled with non-Federal funds.

When using a separate account, the sponsor must:

- have documentation which identifies the transfer of the full amount of the providers' food service payments into the sponsor's bank account on or before the day the provider checks are mailed;
- have funds that can only be withdrawn from this bank account to liquidate provider checks; and
- not use the food service funds before the checks are written or during the "float", which is the time period between when the checks are written and presented to the bank for payment.

Sponsors which use a commingled account must maintain sufficient funds in the account for all outstanding unliquidated payments due to providers who have not cashed their checks in a timely manner and any other unliquidated checks and other disbursements, such as automatic debits for bank service fees. Regardless of the type of account, sponsors must maintain sufficient documentation, including provider payment reconciliation reports and bank statements, to show that the integrity of the food service funds is always maintained.

What if a FDCH sponsor chooses to use its own funds to issue food service advances or reimbursement payments to a provider?

There are cases when a FDCH sponsor chooses to use its own funds, either administrative cost reimbursement payments or non-CACFP funds, to issue food service advances or reimbursement payments to a provider. These situations occur as customer services or are the result of the provider submitting a late claim or a claiming error on the part of either the provider or sponsor which causes the sponsor to receive insufficient funds to issue payments to all eligible providers. In these cases, the sponsor "loans" funds to the food service account. The sponsor ultimately recoups the "loan" from subsequent food service advances or reimbursements, usually through the amended claims process. This is a permitted practice within the following constraints:

- The sponsor cannot use <u>advanced</u> food service funds or food service reimbursement funds claimed on behalf of other providers to issue the payment.
- The sponsor cannot use <u>advanced</u> administrative cost funds for provider payments.
- The sponsor may only recoup the amount of funds loaned to the food service account from the subsequent advance or reimbursement payments received on behalf of the specific provider for the month covered by the loan. For example, a sponsor "loans" administrative reimbursement funds to the food service account to pay Provider A for meals served during April because the provider submitted the April meal claim late. Until the sponsor receives a reimbursement payment from the State which includes Provider A's April's reimbursement, the sponsor cannot recoup the loan.
- Sponsors cannot recoup funds loaned to the food service account for payments issued to providers who are not eligible to receive the payment. This would include: issuing payments to providers not yet approved by the SA; advance payments to providers for whom the sponsor does not claim advance payments; and payments to providers who have not submitted payable claims within the 60/90 day timeframe for the sponsor to submit claims. Funds used to issue payments to providers who are not eligible to receive the payments are a donation to the food service account and cannot be recouped from subsequent food service payments or claimed as an administrative expense.

What is the SA's role in maintaining the proper use of CACFP funds?

One of the most critical factors in the management of the CACFP is to manage the CACFP funds. Accordingly, Section 226.6(a) of the CACFP regulations requires each SA administering the program to provide sufficient training and technical assistance to

institutions, including sponsoring organizations, and to monitor performance in order to facilitate program expansion and effective program operation. SAs must monitor the status of funds at all sponsoring organizations during the administrative review process and in any agreed upon procedures audits. A lack of integrity in the use of funds by sponsors may be caused by, but are not limited to:

- fraud;
- minor bookkeeping errors;
- serious deficiencies, such as the sponsor's lack of knowledge about the proper use of funds;
- improper use of funds (e.g., unallowable costs such as legal costs, personal use, etc.)
- lack of adequate internal controls; and/or
- insufficient financial resources to maintain the organization.

To facilitate effective program operation, the SA must provide written guidance which specifies proper use of CACFP funds to sponsoring organizations. SAs must require sponsors to take prompt and definitive corrective action whenever problems are identified in the proper use of funds. At a minimum, the sponsors must immediately replace any shortages in CACFP accounts and implement adequate internal controls to prevent recurrence of the deficiencies. Should the sponsoring organization fail to comply with this requirement, the SA shall implement its authority to suspend a sponsor's administrative reimbursement until it can be confirmed that the sponsor is in compliance.

Please contact our staff at (303) 844-0359 if additional information is needed.

ANN C. DEGROAT

Regional Director

Child Nutrition Programs

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